**REMARKS AS PREPARED FOR DELIVERY**

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# "Transforming Market Access Into U.S. Agricultural Sales"

Good afternoon. Thank you for inviting me to speak on this panel. As the title of my presentation suggests, I am going to discuss how USDA's Foreign Agricultural Service (FAS) is taking its market access strategy in a new direction to transform access into sales. But first, I want to highlight the overall importance of trade liberalization to U.S. agriculture.

## Importance of Open Markets

Several elements of trade are crucially important to the long-term success of U.S. farmers and ranchers. First, U.S. agriculture is more than twice as dependent on exports as the U.S. general economy. About 25 percent of agricultural sales are for export, compared with 10 percent on average for manufactured goods.

Second, open markets translate into economic growth, including growth in rural communities. Trade liberalization expands outlets for agricultural products, raises prices, and creates more and better paying jobs, both on and off the farm. In the United States, an estimated three-quarters of a million jobs are related to the production, assembly, processing, and distribution of U.S. agricultural products for export. Of this total, the majority -- 470,000 jobs -- are off the farm.

Third, trade agreements are the key to expanding export markets and increasing market access to customers outside the United States. That's why U.S. Trade Representative Robert Zoellick wants to reestablish fast-track negotiating authority. We need this authority to lead the way on global market-opening agreements.

Ambassador Zoellick has made it clear that some of our top trade priorities involve our own hemisphere. These efforts will begin at the Summit of the Americas meeting in Quebec City in April where the Free Trade Area of the Americas will be discussed. The United States will also continue to pursue bilateral and regional trade agreements, such as the Chilean Free Trade Agreement and the Asia Pacific Economic Cooperation forum.

We will also continue our multilateral efforts in the negotiations in agriculture at the World Trade Organization's (WTO) Special Session of the Committee on Agriculture. Last June, the United States presented a comprehensive and well-received negotiating proposal to this committee. The U.S. proposal reinforces what we already know about open markets -- they benefit both producers and consumers.

By eliminating trade barriers and reducing unfair competition, trade liberalization helps ensure that farmers have incentives to produce and consumers worldwide have access to the products they desire. Open markets help farmers around the world allocate resources better, make conservation of natural resources possible, reward low-cost producers, and encourage specialization and technological innovation. This creates more efficient agricultural and non-agricultural production. For food insecure nations, trade liberalization saves lives by making food products more readily available from areas with abundant production to areas where food is scarce.

**Coming to Grips with the Loss of Market Share**

But, while continued worldwide trade liberalization is necessary for the ongoing growth of U.S. agricultural exports and the larger farm economy, a broader trade vision is needed to help our producers reach their full export potential. There is growing bipartisan concern that our producers' economic welfare is being undermined by an ongoing decline in the U.S. share of world agricultural trade. Twenty years ago, the United States was clearly the world export leader, accounting for 24 percent of world trade. Today, that share stands at roughly 18 percent (1999 world trade was estimated at $285 billion). Granted, our exports have risen substantially -- and will continue to rise -- but they are doing so at a slower rate than other exporters.

As a result, America's once overwhelming leadership as an exporter has slipped to the point where the European Union (EU), our major competitor, is on the verge of overtaking us as the world's largest agricultural exporter. Twenty years ago, the EU was a distant second. Losing six points may not sound like much, but every percentage point of market share we lose amounts to $3 billion in lost agricultural exports and $750 million in reduced farm income per year.

Several factors have contributed to the drop in the U.S. agricultural market share:

1) the strong dollar;
2) aggressive investment in export promotion by our competitors;
3) over-reliance on mature markets; and
4) extensive use of domestic farm supports by the EU.

**Strong dollar.** While the U.S. dollar has remained strong, our competitors' currency has fallen in value, making their products cheaper relative to U.S. offerings and hurting the competitiveness of U.S. products.

**Aggressive investment in export promotion by competitors.** Unfortunately, combined U.S. spending on market development activities by government and producer groups is down almost 25 percent from 1991's level of $350 million. Even a sharp increase in promotional spending by industry groups did not offset a 50-percent decline in U.S. Government spending. Meanwhile, our major competitors -- the EU and the Cairns Group -- were quick to capitalize on our reduced effort and use it to their benefit by increasing their combined market development activities by 50 percent to more than $1 billion.

**Over-reliance on mature markets.** U.S. exports have relied more on large, mature country and commodity markets whose overall import demand growth is slower than that of the rest of the world. Two-thirds of U.S. exports go to our six largest country markets (Japan, the EU, Canada, Mexico, South Korea, and Taiwan). Since 1992, all but one has seen import demand growth slow to below the world average. This is no match for the strong import growth demonstrated by Asian countries (other than Japan) and South America. Likewise, on a commodity basis, U.S. exports are more heavily dependent on the slower growing, price sensitive bulk commodities with which we have a comparative advantage. Our competitors, however, have focused on the faster-growing, high-value products, where the global import market is substantially greater.

Taken together, this means the markets we have relied on in the past are becoming less dominant in global agricultural trade. If the United States is to expand its share of world agricultural trade, our exporters will need to develop those markets that will increasingly dominate world trade over the next 10 years.

**Extensive use of domestic farm supports by the EU.** Although the Uruguay Round disciplined the use of domestic support, competitors like the EU still use them to a far greater extent than the United States. According to the Organization for Economic Cooperation and Development, total EU production supports were estimated at $114.5 billion in 1999, compared to $54 billion for the United States.

**Global Marketing Strategy**

With the U.S. share of global agricultural exports nearing a 20-year low, FAS has set a goal of increasing the U.S. share of world agricultural exports to 22 percent by 2010, reversing much of the decline of the past 20 years.

Can we do it? A glance at the USDA baseline scenario indicates that our economists believe the United States can export $76 billion in farm goods by 2010, up an impressive 40 percent from the current level of $53 billion. However, this is comparable to expected gains by competitors; so there will be little change in the U.S. share of world agricultural trade through 2010 -- it will remain at roughly 18 percent.

*We must do better*. The baseline scenario assumes no change in our trade or farm policy environment and no change in export promotion programs. However, to increase our market share poses a major challenge and will require an aggressive marketing strategy. The benefits of success would be substantial -- in terms of increased U.S. exports and farm income.

*Our strategic focus*. We are still developing the details of our marketing strategy and consulting with others in government and industry to determine the best course of action. Nevertheless, we are convinced of two things. First, the best way to boost our overall share of world trade is to capture a greater share than our competitors of the trade benefits associated with multilateral reform. Trade reform offers vast opportunities to many exporting nations, but the ones who reap the greatest benefits are those that invest in developing the new markets created by reform. Clearly global competition will continue to intensify, indicating a need for a greater and more focused role for export promotion than in the past.

Second, we will sharpen our strategic focus on those fast-growing, emerging markets that we expect to have the most potential for market share expansion. Our analysis shows that Asian countries (other than Japan), Latin America, and some selected opportunities in Africa and the Middle East lead the list. Over the next decade, food consumption in these markets will surge, benefitting from very favorable demographics -- a growing middle class who have rapidly rising disposable incomes, and a willingness to spend their wealth on more and better food. Gaining

share in these fast-growing markets, without sacrificing hard won gains in large mature markets like Japan and the EU, is the most effective way of increasing our share of world trade.

**Agricultural Trade Missions**

We did not set our trade goals in a vacuum. All of FAS' programs and activities are supported by a network of Agricultural Counselors, Attachés, and Agricultural Trade Officers located at 61 American Embassies covering about 130 countries around the globe. These officers are the "eyes and ears" for U.S. agricultural producers and exporters. They gather data about a country's crop production, consumer preferences, and marketing system and send this information to Washington, where is it supplemented, compiled, analyzed, and disseminated nationwide. This information helps U.S. farmers, traders, and exporters know where crop shortfalls exist, where competition is greatest, or how they might need to change their products or packaging to meet changing demand overseas. Based on input and analyses from the field and at headquarters, we developed our list of countries and regions with the greatest growth potential. So far, I have been talking in theoretical terms, but I want to take a few minutes to share with you how we have applied these concepts to the real world. In the past year, I have had the privilege of co-leading two trade teams to major emerging markets in Africa and Latin America. On each of these trade team missions, we had more than 30 representatives from small- and medium-sized U.S. firms, exporters, and agribusinesses traveling with us to explore the sales potential for their products in these high-growth markets. The companies represented a diversity of bulk, value-added, and consumer-ready products.

In Africa, we visited Morocco, Senegal, Ghana, and Nigeria. In Latin America, we visited Argentina, Colombia, Venezuela, and Costa Rica. In each country, U.S. company representatives had the opportunity to meet with importers and distributors, make direct export sales, and establish contacts for future sales. At each stop on the itinerary, they visited a supermarket to see firsthand how the products would be handled and displayed. The missions also served as a forum for spearheading discussions on trade issues with each host government. In addition, we educated foreign importers about USDA export credit guarantee programs that facilitate trade by providing exporters with short- and intermediate-term commercial financing support.

The overwhelming response from the U.S. companies that accompanied us was very positive. Sales made or expected over the next year are projected at around $20 million. Participants on the African mission came to realize that tapping into prospective niche markets there may be the answer to capturing more export sales. Participants on the Latin American mission saw substantial potential in these emerging growth markets. More of these types of activities will give U.S. exporters firsthand exposure to greater niche market opportunities for high-value products.

**Conclusion**

As U.S. Trade Representative Robert Zoellick said during his recent confirmation hearing, "America's trade and economic interests extend far beyond this hemisphere. We want to launch a new round of global trade negotiations, emphasizing a key role for agriculture. We will seek to negotiate regional and bilateral agreements to open markets around the world."

In this first decade of the 21st century, USDA is determined to accomplish these goals. We will continue to pursue bilateral, regional, and multilateral trade agreements with the best interests of U.S. agriculture in mind. We will work hard to meet the challenges of expanding U.S. agriculture's market share by reinventing and reinvigorating our global marketing strategy and synchronizing it with the strategies of our industry partners. And we will continue to be there for U.S. farmers, ranchers, and exporters by meeting the competition head on. Thank you.

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